

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION
of

Western Mutual Insurance Company

of
Taylorsville, Utah

as of
December 31, 2002

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January 23, 2004

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (EX4) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

John Morrison, Commissioner
Secretary, Western Zone, NAIC
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Merwin U. Stewart
Insurance Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, UT 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2002, has been made of the financial condition and business affairs of:

Western Mutual Insurance Company
Taylorsville, Utah

a life and disability mutual insurance company, hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's last financial examination of the Company was conducted as of June 30, 2000. The current examination covers the period from July 1, 2000, through December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2002. Material assets were valued and ownership

verified. Liabilities were determined in accordance with laws, rules, and procedures prescribed by the State of Utah. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of a certified public accounting (CPA) firm to audit its financial and operating records for the 2000, 2001, and 2002 annual statement reporting periods. Working papers, as requested by the examiners, were made available for the examiners' use. Work prepared by the CPA was relied on for examination purposes when considered appropriate.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

The previous examination was performed by the Utah Insurance Department as of June 30, 2000. Adverse findings noted in the prior report of examination were addressed by the Company or were identified as repeat exceptions in this report.

HISTORY

General

Western Petroleum Marketers Mutual Insurance Company, dba, Western Mutual Insurance Company was licensed by the state of Utah Insurance Department as a mutual life insurance company effective July 1, 1987. The Company is authorized to issue life and disability insurance.

The Company succeeded the Intermountain Oil Marketers Employee Trust on July 1, 1987. Intermountain Oil Marketers Employee Trust commenced business during 1974, and it continued its operations through June 30, 1987, at which time all assets and liabilities were transferred to the Company. The "net worth" of Intermountain Oil Marketers Employee Trust as of June 30, 1987, was \$1,388,964, and it was subsequently disclosed as "paid in surplus" on the Company's annual statements.

The name of the Company was officially changed in December 1994 to Western Mutual Insurance Company. The Company formed WMI TPA, Inc., a wholly owned third party administrator in 1999.

The Company amended its bylaws on November 1, 2000. The Restated Bylaws changed the location of the principal office to 4393 South Riverboat Road, Suite 380, Taylorsville, Utah 84123. The amendment also changed Article IV, Section 8 such that the president is no longer required to be a director.

Capital Stock

The Company is a mutual insurance company, therefore, there is no capital stock.

Dividends to Stockholders

The Company did not pay dividends to stockholders during the examination period, as the Company is a mutual insurance company.

Management

Directors serving as of December 31, 2002, were as follows (including location and principal occupation):

<u>Name</u>	<u>Principal Occupation</u>
Douglas A. Alexander Bozeman, Montana	President Story Distributing Company
Wilford A. Cardon Mesa, Arizona	Chief Executive Officer/Owner The Cardon Companies
Harold Kent Johnson Boise, Idaho	President Retired
Craig Eerkes Kennewick, Washington	Chief Executive Officer/President Sun Pacific Energy Inc.
Gerald W. Tedrow Highland, Utah	Executive Director Western Petroleum Marketers Association
Kendall P. Hatch Salt Lake City, Utah	Retired Attorney
Gerald D. Richardson Ogden, Utah	Retired Petroleum Business Owner

Officers of the Company as of December 31, 2002, were as follows:

<u>Principal Officer</u>	<u>Office</u>
H. Kent Johnson	Chairman
Gerald W. Tedrow	Chief Executive Officer
David T. Leo	President/Chief Operating Officer
Nancy J. Comins	Secretary/Treasurer/Chief Financial Officer

Article IV, Section 6 of the bylaws state the chairman of the board shall be chief executive officer of the corporation. However, the board of directors elected two separate persons to serve as the chairman of the board and the chief executive officer at each of the annual meetings conducted during the examination period. The Company submitted proposed amendments to the bylaws and articles of incorporation to the Utah Insurance Department on August 28, 2003, which stated that if the board of directors has not appointed a separate officer to be chief executive officer, the chairman shall be the chief executive officer

The members of the Company's committees as of December 31, 2002, were as follows:

<u>Investment Committee</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>
Wilford A. Cardon	Kendall P. Hatch	Kendall P. Hatch
Craig Eerkes	Gerald D. Richardson	Gerald D. Richardson
Gerald W. Tedrow	Gerald W. Tedrow	Gerald W. Tedrow

Conflict of Interest Procedure

The Company has an established procedure for disclosing to its board of directors any material affiliation on the part of its officers, directors, or responsible employees, which is likely to conflict with the individual's official duties. Each person was required to file an annual statement disclaiming or disclosing any material conflict of interest. No exceptions to established procedure were noted by the examination.

Corporate Records

Minutes of the meetings of the policyholders, board of directors, and committees were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors are properly informed of and participate in Company affairs. Generally, at each board meeting, a detailed report of investment transactions since the previous meeting was presented and approved.

The Utah Insurance Department examination report as of June 30, 2000, was distributed to the board of directors on May 4, 2001. The most recent meeting of the board of directors was held on January 31, 2003, through February 1, 2003, and the board of directors approved the minutes of that meeting on April 24, 2003.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

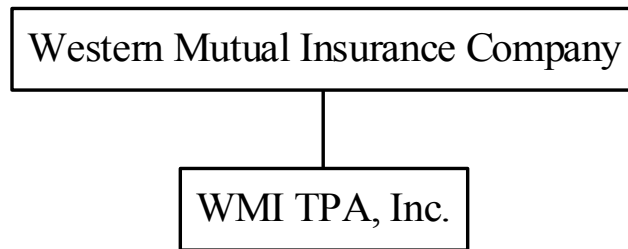
The Company was not involved in any acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

Surplus Debentures

No surplus debentures were issued or were outstanding during the examination period.

AFFILIATED COMPANIES

The following organizational chart illustrates the Company's relationship with its subsidiary:



The members of Western Petroleum Marketers Association (WPMA) were policyholders of the Company. The Company had approximately two hundred sixty-three (263) association policyholders, each entitled to one vote in Company matters.

The executive director of WPMA served as chief executive officer of the Company. The executive director also served on the board of directors of the Company and on three committees of the board of directors.

Transactions with Affiliates

Effective June 30, 2000, the intercompany agreement between WMI TPA, Inc. and the Company allowed the subsidiary to sublease office space from the Company, to utilize certain office equipment belonging to the Company on a *pro rata* basis, to utilize the Company's third party claims, billing and enrollment software at the same rate charged to the Company by the third-party vendor, and to have access to and support from certain employees of the Company at their customary rate of pay.

Effective March 15, 2000, the intercompany agreement between WMI TPA, Inc. and the Company allowed WMI TPA, Inc. to offer the ancillary insurance products of the Company at the same rates at which the products are being offered by the Company directly.

The agreement between WPMA and the Company, effective August 25, 1997, required the Company to pay WPMA a fee for services rendered by WPMA. The fee for common management was \$2,803 per month. Also, the Company paid the actual cost of using WPMA's postage meter.

Pursuant to the sublease agreement between WPMA and the Company, the Company subleases 61% of the total area leased to WPMA by the owner of the premises in consideration for the Company paying 61% of all costs and expenses. The term of the sublease commenced on June 1, 2000, and terminates on May 31, 2005.

The Company was acting as an administrator of an Administrative Services Contract (ASC) plan, described under Statement of Statutory Accounting Principles (SSAP) No. 47, by paying prescription claims for WMI TPA, Inc. There was no agreement for administrative services, nor was it disclosed to the commissioner according to U.C.A. § 31A-16-106(1)(b)(iv).

FIDELITY BOND AND OTHER INSURANCE

The Company was insured for employee dishonesty in the amount of \$1,000,000, with a deductible of \$50,000, as of the examination date. It had errors and omissions liability insurance for \$1,000,000, with a \$100,000 deductible, and it had directors and officers' liability and company reimbursement insurance coverage for \$1,000,000, with a deductible of \$25,000.

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a life and disability insurer of the Company's size and premium volume is not less than \$275,000. The Company was also a named insured under policies providing coverage for loss from business property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided its employees with health, disability, vision, dental and life insurance benefits. Employees who had one year of service were included in the Company's simplified employee pension program (SEP). No provision for the SEP was necessary in the financial statement of the Company. The SEP was administered by a trustee, in which benefits were paid as the obligation was incurred.

STATUTORY DEPOSITS

The Company maintained a deposit in the state of Utah in the amount of its permanent surplus of \$400,000, which complied with U.C.A. § 31A-4-105. The state of Idaho required a \$1,000,000 deposit for the benefit of all policyholders. The state of Nevada required a \$200,000 deposit for the protection of Nevada insureds and an additional \$100,000 deposit through the Utah Insurance Department. The examination confirmed the Company maintained statutory deposits which were adequate to cover the required deposits.

Statutory deposits maintained by or through regulatory agencies as of December 31, 2002 were as follows:

<u>State</u>	<u>Asset</u>	<u>Admitted Value</u>	<u>Market Value</u>
Utah	Bond	\$ 359,591	\$ 360,000
Utah	Bond	100,052	100,000
Utah	Bond	225,974	225,000
Utah	Bond	203,301	200,000
Utah	Certificate of Deposit	100,000	100,000
Utah	MMF (SVO Class 1 List)	21,494	21,494
Utah Total		<u>1,010,412</u>	<u>1,006,494</u>
Nevada	Bond	100,344	100,000
Nevada	Stock	100,000	100,000
Nevada	MMF (SVO Class 1 List)	19,296	19,296
Nevada Total		<u>219,640</u>	<u>219,296</u>
Totals		<u>\$1,230,052</u>	<u>\$1,225,790</u>

The deposit held through the Utah Insurance Department satisfied the requirements for Idaho, Utah and the additional requirement for Nevada.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company provided accident and health insurance contracts under the following plans:

<u>Plan</u>	<u>Description</u>	<u>Annual Deductible</u>
150	Comprehensive Major Medical Expense	\$ 150 per person
300	Comprehensive Major Medical Expense	300 per person
500	Comprehensive Major Medical Expense	500 per person
1000	Comprehensive Major Medical Expense	1,000 per person
Conversion	Optional coverage when a group plan (including COBRA) terminates	1,000 per person
375C	Conversion Plan (No longer marketed)	500 per person
Cobra	Same plan as when the insured leaves	
Med Sup	Medicare Supplemental	Various

The comprehensive major medical expense plan policy sets the percentage payable after the satisfaction of the deductible and prior to the satisfaction of the out-of-

pocket maximum amounts for eligible inpatient hospital, outpatient hospital, surgical and medical services.

The Company retained the first \$225,000 for each person insured under the excess of loss reinsurance agreement.

Supplemental dental, vision, life and disability benefits may be obtained with basic health insurance contracts. The group life insurance and disability insurance plans, which are no longer marketed, had varying coverage amounts available ranging from \$5,000 to \$20,000. The voluntary group life insurance plan offered coverage in increments of \$10,000, \$25,000, \$50,000, \$75,000 and \$100,000.

The Company retained the first \$20,000 for each insured's basic group term life coverage under the indemnity reinsurance agreement. Also, it retained the first \$25,000 for each insured's voluntary group term life coverage under the indemnity reinsurance agreement.

Territory and Plan of Operation

The Company was licensed to transact life and disability insurance business in the states of Idaho, Montana, Nevada and Utah.

Participants in the health and life insurance programs offered by the Company residing in the states of Arizona, Idaho, Nevada, New Mexico, Utah and Washington were members or employees of WPMA or employees of the Company. Participants residing in Montana were either members of WPMA or other specified associations in Montana only.

The Company continued to service the policyholders residing in the states of Arizona, New Mexico and Washington for policies written by Intermountain Oil Marketers Employee Trust, although it was not licensed to transact business in those states. Effective February 17, 2003, the Company was ordered to "cease and desist from the unauthorized solicitation, sale or issuance of any new insurance business in the state of Washington," and "to cease and desist from renewing existing insurance policies at their renewal dates." Work performed by the examination indicated the Company complied with the cease and desist orders issued by Washington.

The Company employed a marketing director and one assistant as its sales force. The marketing director worked with WPMA members regarding insurance matters and performed other functions relative to development and administration of the insurance program for the WPMA membership. The Company contracted with a general agent and approximately 17 sub-agents to market its plans to other associations within the state of Montana.

Advertising and Sales Material

The Company advertised in the "Western Petroleum Marketers News." This

quarterly periodical was distributed to WPMA members. Advertising was also contained in the WPMA membership directory, and quarterly newsletters were mailed to individuals insured with the Company.

Treatment of Policyholders

The Company has a claims appeals policy to maintain control over policyholders' complaints. Three formal complaints were filed with the Utah Insurance Department during the examination period, which were resolved and determined to be unjustified.

REINSURANCE

The Company's reinsurance program consisted of coverage for excess medical expense and coverage for its basic group term life and voluntary group term life risks. Reinsurance contracts in effect as of December 31, 2002 are discussed in the Ceded section of this report.

Business written above the retention limits was ceded on an excess of loss basis or on an indemnity basis. The maximum reinsurance coverage provided was \$2,000,000.

Ceded

The Company obtained fully insured medical excess of loss reinsurance to cover fully insured group medical expense benefits, contracts, and binders of insurance from Continental Assurance Company, an Illinois domiciled insurer licensed in the state of Utah. The coverage also applied to four individuals in Montana who were issued a "group" policy as a conversion policy prior to 2000. The Company's retention was \$225,000 per person, and the reinsurer's maximum liability was \$2,000,000.

The Company reinsured its basic group term life (including its non-occupational accidental death and dismemberment coverage) and voluntary group term life risks through an agreement with Beneficial Life Insurance Company, a Utah domiciled insurer. The Company's retention for its basic group term life with a \$50,000 maximum coverage was \$20,000 for each insured life, and it retained the coverage for dependent benefits. The Company's retention for its voluntary group term life with a \$500,000 maximum coverage per employee and a \$100,000 maximum coverage for an employee's spouse was \$25,000 per person, and it retained the coverage for dependent benefits. The reinsurer did not accept any coverage in excess of \$100,000 per insured unless it approved the coverage in advance in writing.

Assumed

The Company did not assume any insurance risk during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Most of the records were maintained on a mainframe electronic data processing system located in Naperville, Illinois. Data from the mainframe was used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An examination trial balance, as of December 31, 2002, was prepared from an electronic copy of the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

Item eleven of the general section of the *Annual Statement Instructions* promulgated by the NAIC states, "If the report does not contain the information asked for in the blanks or is not prepared in accordance with these instructions, it will not be considered filed

Some of the annual statement reports, exhibits, and schedules were determined to be deficient or improperly prepared. Items of significance are listed below.

1. A deferred income tax asset in the amount of \$35,706 was not reported on the balance sheet according to SSAP No. 10, paragraph 5 and then assessed for admissibility per SSAP No. 10, paragraph 10. In addition, a disclosure regarding the deferred income tax asset was not made in the Notes to Financial Statements to comply with SSAP No. 10, Exhibit A, paragraphs 1.11 and 12.
2. The asset valuation reserve was not calculated according to the NAIC *Annual Statement Instructions*, which caused it to be understated by \$26,908. The change in unrealized capital gains/(losses) reported on line 3, column 4 did not tie to Exhibit 4 of the 2000 and 2001 annual statements. Also an incorrect reserve factor of 20% for unaffiliated publicly traded common stock was used instead of the required maximum 30% reserve factor for Companies which do not want the extra administrative complexity of calculating the beta factor. No examination adjustment was made, because the amount was not material.
3. One bond was reported with an NAIC designation of "1Z" on the 2000 Schedule D - Part 1, which was not submitted to the NAIC Securities Valuation Office (SVO) until May 5, 2003. This was not in compliance with Part Three of the NAIC *Valuation of Securities* manual prepared by the SVO, which requires a security to be submitted to the SVO for valuation within 120 days of the date the security was acquired.
4. Two bonds reported with an NAIC designation of "1" were not found in the SVO master file. The bonds were found to be provisionally exempt, and they should be

reported with an NAIC designation of “PE” to comply with Part Four, Section 1(a)(ii) of the NAIC *Valuation of Securities* manual.

5. Transaction amounts pertaining to the intercompany agreements with the Company’s subsidiary WMI TPA, Inc. were not reported in column 8 of Schedule Y - Part 2 for the years under examination. This did not comply with the NAIC *Annual Statement Instructions* for Schedule Y - Part 2 column 8.
6. The examination confirmed special deposits consisting of money market funds, which were held with the custodial bank, but the special deposits were not reported on Schedule E - Part 2 as of December 31, 2002. The bank held \$21,494 on behalf of Utah policyholders and \$19,296 on behalf of Nevada policyholders. Schedule E - Part 2 should include all special deposits according to the NAIC *Annual Statement Instructions*.
7. The special deposits reported on Schedule E - Part 2 indicated they were held for the benefit of all policyholders, claimants and creditors of the Company. However, according to the NAIC *Annual Statement Instructions*, the Nevada deposits should be reported in a separate section of the schedule as special deposits held for the policyholders, claimants and creditors of Nevada.
8. The Company’s disclosure number 22 in the Notes to Financial Statements was not in accordance with SSAP No. 61, paragraph 6, because it did not address all of the required sections of the interrogatories under the “Ceded Reinsurance Report” detailed in the NAIC *Annual Statement Instructions*. The Company should comply by disclosing all the required information.
9. The Notes to Financial Statements did not contain a description of the service contracts and cost-sharing arrangements with WMI TPA, Inc. as required by SSAP No. 25, paragraph 17(g). The Company should include disclosures listed under SSAP No. 25, paragraphs 17 and 18 in note number ten of the Notes to Financial Statement.
10. The Company did not implement an anti-money laundering program in accordance with the Patriot Act, because premium payments for its life insurance products were not made in a lump sum. The Company has several anti-fraud measures in place. The Company should establish a procedure to report fraudulent insurance acts to the commissioner.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2002, and the results of its operations during the twelve months then ended, as determined by the examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2002

SUMMARY OF OPERATIONS for the Year Ended
December 31, 2002

RECONCILIATION OF CAPITAL AND SURPLUS - 2000 through 2002

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

WESTERN MUTUAL INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2002

ASSETS

	Net Admitted Assets	<u>Notes</u>
Bonds	\$ 4,866,192	
Preferred stocks	300,890	
Common stocks	754,894	
Cash and short term investments	515,271	
Electronic data processing equipment and software	10,206	
Federal and foreign income tax recoverable and interest thereon	73,681	
Accident and health premiums due and unpaid	21,625	
Investment income due and accrued	63,592	
Receivable from parent, affiliate and subsidiaries	<u>57,523</u>	
Total net admitted assets	<u><u>\$ 6,663,874</u></u>	

LIABILITIES

Life (contract claims)	\$ 10,000
Accident and health (contract claims)	3,168,000
Premiums and annuity considerations for life and accident and health contracts received in advance	20,157
General expenses due or accrued	318,404
Taxes, licenses or fees due or accrued excluding federal income taxes	2,053
Asset valuation reserve	27,258
Reinsurance payable	<u>182,408</u>
Total liabilities	<u><u>3,728,280</u></u>

CAPITAL AND SURPLUS

Gross paid in and contributed surplus	1,388,964	
Unassigned funds (surplus)	<u>1,546,630</u>	
Total capital and surplus	2,935,594	(1)
Total liabilities, capital and surplus	<u><u>\$ 6,663,874</u></u>	

WESTERN MUTUAL INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2002

	<u>Amount</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 16,662,496
Net investment income	199,493
Amortization of Interest Maintenance Reserve (IMR)	(3,608)
Commissions and expense allowance on reinsurance ceded	312,993
Miscellaneous income	4,276
Totals	<u>17,175,650</u>

BENEFITS

Death benefits	13,000
Disability and death benefits under accident and health contracts	14,394,421
Totals	<u>14,407,421</u>

EXPENSES

Commissions on premiums and annuity considerations and deposit-type funds	514,405
General insurance expenses	1,509,491
Insurance taxes, licenses and fees excluding federal income taxes	501,736
Total benefits and expenses	<u>16,933,053</u>
Net gain from operations before federal income taxes	242,597
Federal income taxes incurred	19,159
Net gain from operations after federal income taxes and before realized capital gains (losses)	<u>223,438</u>
Net realized capital gains or (losses)	(106)
Net Income	<u><u>\$ 223,332</u></u>

WESTERN MUTUAL INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2000 through 2002

	<u>2000</u>	<u>2001</u>	<u>Per Exam 2002</u>	<u>Notes</u>
Capital and surplus, December 31, prior year	\$ 1,675,509	\$ 1,213,770	\$ 2,874,911	
Net income	(594,842)	1,599,295	223,332	
Change in net unrealized capital gains (losses)	(124,595)	72,912	(162,310)	
Change in nonadmitted assets and related items	38,065	(1,426)	6,029	
Change in asset valuation reserve	<u>219,633</u>	<u>(9,640)</u>	<u>(6,368)</u>	
Net change in capital and surplus for the year	<u>(461,739)</u>	<u>1,661,141</u>	<u>60,683</u>	
Capital and surplus end of reporting year	<u><u>\$ 1,213,770</u></u>	<u><u>\$ 2,874,911</u></u>	<u><u>\$ 2,935,594</u></u>	(1)

NOTES TO FINANCIAL STATEMENTS

(1) Capital and surplus \$2,935,594

The Company's capital and surplus was determined to be \$2,935,594 for the year ended December 31, 2002. There were no changes to capital and surplus reported by the Company resulting from the examination findings.

The Company's permanent surplus requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of \$2,962,852, as defined by U.C.A. § 31A-17-601, which exceeded the authorized control level risk-based capital (RBC) requirement of \$1,118,170 by \$1,844,682.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. The Company was providing a service to its subsidiary as described under SSAP No. 47 without a written agreement, which does not comply with U.C.A. § 31A-16-106(1)(b)(iv). (Transactions with Affiliates)
2. Several errors and omissions occurred during the preparation of the annual statement. The annual statement should be prepared according to the NAIC *Annual Statement Instructions* to be considered filed, as stated in item nine of the general section. U.C.A. § 31A-2-202(6) requires all information submitted to the commissioner be accurate and complete. Determination of account balances and disclosures should be made in accordance with the *Annual Statement Instructions*, the *Accounting Practices and Procedures Manual*, and the *Valuation of Securities* manual. (ACCOUNTS AND RECORDS)
3. Transaction amounts pertaining to the intercompany agreements with WMI TPA, Inc. were not reported in Schedule Y - Part 2. The NAIC *Annual Statement Instructions* require an overview of transactions among insurance holding company system members to be reported. (ACCOUNTS AND RECORDS)
4. The Company's capital and surplus was determined to be \$2,935,594 for the year ended December 31, 2002. There were no changes to the reported capital and surplus resulting from the examination findings. The Company's permanent surplus requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of \$2,962,852, as defined by U.C.A. § 31A-17-601, which exceeded the company authorized control level risk-based capital (RBC) requirement of \$1,118,170 by \$1,844,682. (NOTES TO FINANCIAL STATEMENTS)

CONCLUSION

Donald R. Catmull, AFE, participated in the examination representing the Utah Insurance Department. He joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company is sincerely appreciated.

Respectfully Submitted,

Colette M. Reddoor, CFE, CPM
Examiner-in-Charge
Utah Insurance Department